



**Financial Reporting Control Assessment Business Line  
FISCAL YEAR 2008 – 2012 PLAN**

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## **Executive Summary**

### **Mission**

The mission of the Financial Reporting Control Assessment Business Line (Business Line) is to provide customers<sup>1</sup> with the guidance, tools and support they need to conduct assessments on the effectiveness of their internal control over financial reporting, and obtain and maintain an unqualified annual assurance. This annual assurance is required by Office of Management and Budget (OMB) Circular A-123, specifically Appendix A.

### **Vision**

The vision of the Business Line is to provide customers with innovative solutions that allow them to achieve and sustain excellence in internal controls and financial reporting.

### **Balanced Scorecard Objectives**

The Balanced Scorecard (BSC) is a framework for translating the Business Line's vision into a set of performance indicators distributed among four perspectives identified below. The performance of the Business Line will be monitored through the BSC.

- **Customers:** To support customer efforts to assure the integrity of their financial reporting activities.
- **Financials:** To support Departmental efforts to assure the overall integrity of its financial management activities.
- **Internal Business Processes:** To improve the management and implementation of the Department's A-123 Program.
- **Learning and Growth:** To improve the knowledge of Business Line staff to better anticipate and support customer needs.

### **Accomplishments**

**Fiscal Year (FY) 2006** – although the Business Line was not in existence in FY 2006, some accomplishments that year included:

- Implementing a Department-wide A-123 assessment program
- Developing and implementing throughout the Department a corporate A-123 tool suite
- Delivering on commitments to the Department and OMB
- Meeting OMB reporting deadlines

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<sup>1</sup> Customers include the approximately 60 organizational entities across the Department that are implementing A-123: Lead Program Secretarial Offices (LPSO), Field Offices, site contractors, and selected Headquarters staff offices ("Corporate Departments").

- Identifying and resolving three A-123 material weaknesses
- Establishing a foundation for business process improvement

**FY 2007** – some accomplishments included:

- Aggregating assurance statements from across the Department to provide the basis for the Secretary's assurance on the effectiveness of internal control over financial reporting
- Resolving FY 2006 material weaknesses related to financial statement compilation reconciliations and undelivered orders
- Ensuring that site contractors completed their baseline assessments of all high, medium and low risk activities, per the Department's commitment to OMB
- Developing an approach to cyclical, risk-based testing that was consistent with OMB requirements and was seamlessly integrated with the Department's existing A-123 methodology
- Conducting reviews of selected A-123 assessments
- Providing direct implementation support for targeted A-123 assessments
- Providing reference materials such as the Procure-to-Pay process catalog and the first installment of the Entity Controls catalog
- Developing and deploying a reporting suite that provided customers with the capability to more fully analyze their assessment data and generate standard and customized reports
- Developing and deploying video-based training modules on selected A-123 topics
- Conducting three on-site all-hands A-123 training sessions

**FY 2008 Goals** – some goals for this year include:

- Reinvigorating the corporate A-123 Quality Assurance process and providing insightful feedback to customers on the quality and completeness of the assessment data in their corporate A-123 tool suite
- Providing customers with the capability to perform quality assurance on the data in their corporate A-123 tool suite
- Providing customers with additional reference materials such as a catalog of risks and controls aggregated from across the Department, and additional business process and entity controls catalogs
- Providing customers with the capability to spell-check the assessment data in their corporate A-123 tool suite
- Providing direct implementation support for targeted A-123 assessments
- Conducting reviews of selected A-123 assessments
- Starting an initiative to standardize sub-processes (and possibly key risks) across the Department
- Ensuring that federal implementations of A-123 complete their baseline assessments of all low-risk activities, per the Department's commitment to OMB
- Conducting A-123 training sessions
- Providing an unqualified Secretarial assurance on the effectiveness of the Department's internal control over financial reporting

## Introduction

### OMB Circular A-123

OMB Circular A-123 is not new, nor is the Federal requirement for management to establish and maintain internal controls (previously called management controls) over financial reporting. In the past, the Department met its A-123 obligations via the Secretary of Energy's attestation, made as part of its Federal Manager's Financial Integrity Act assurance. The Secretary's attestation was made on the basis of assurance statements provided by Departmental component managers (Heads of Programs and Heads of Field Elements, plus Integrated Contractors).

In December 2007, OMB released a revised Circular A-123. The revised Circular was in response to internal control requirements for publicly traded companies in the Sarbanes-Oxley Act of 2002. While changes were made throughout the document, the most critical changes were concentrated in the newly added Appendix A, *Internal Control over Financial Reporting*. To meet these new requirements, the Department was able to use the same basic attestation process that it previously used to meet its A-123 obligations, but it required a change in the way it prepared for the attestation and how it managed the entire process.

The primary reason for the changes is the strengthened requirements in Appendix A. While the revisions to A-123 did not change the scope of the Circular or the scope of the required attestation, it did strengthen the documentation and monitoring requirements. The documentation requirements not only became more detailed, but were also expanded to include documentation of both internal controls as well as and documentation of the methodology and process used to make the attestations. Monitoring was strengthened by requiring a continuous cycle of evaluation, testing and, where necessary, remediation of those controls that are not designed or operating effectively. The ultimate intent of the revised Circular was to "strengthen the process management used to assess internal control over financial reporting."

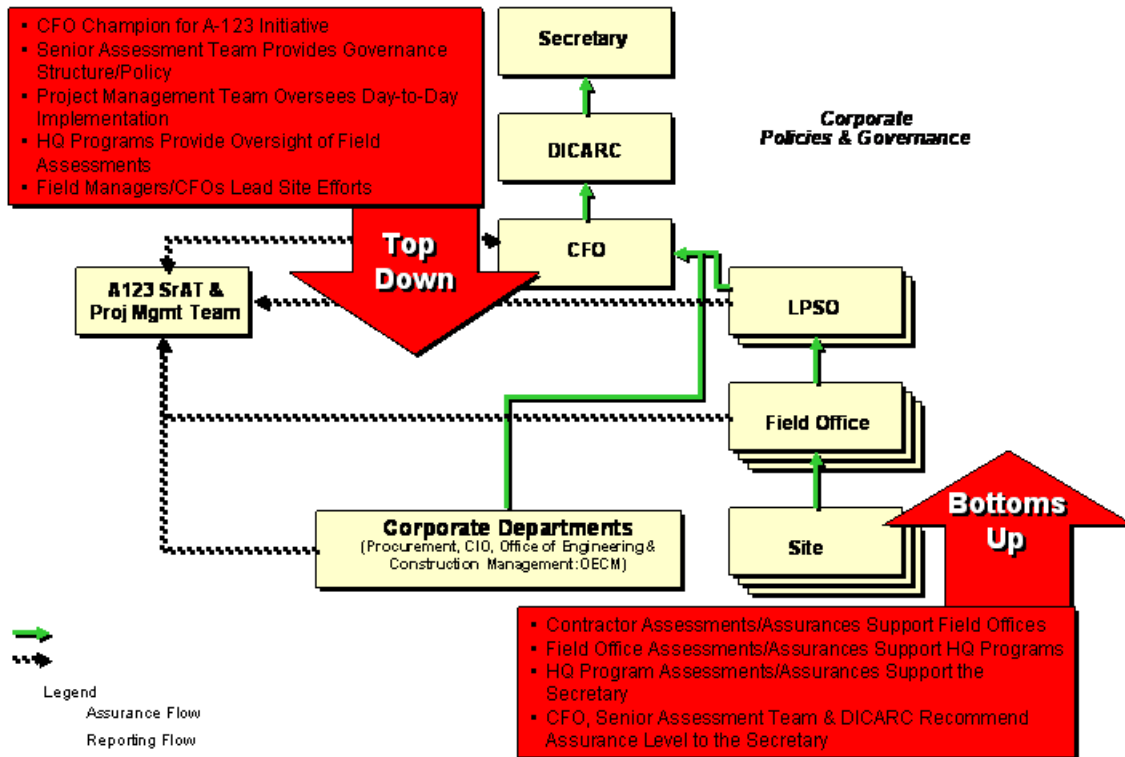
### Department's Approach to Implementing A-123

The Department understands that it is management's fundamental responsibility to establish and maintain effective internal controls. As such, it established a corporate program to implement and manage the requirements of A-123, Appendix A. The corporate program has taken a Top-Down/Bottom-Up approach, in that top-down oversight and governance is provided by the Department's A-123 Senior Assessment Team (SrAT), the Headquarters Office of the Chief Financial Officer (OCFO) and the A-123 Project Management Team (PMT). The SrAT provides the A-123 governance structure and related policy; the OCFO acts as the "champion" for the A-123 initiative; and the PMT provides day-to-day corporate oversight and support for Department-wide A-123 implementation. Additionally, Lead Program Secretarial Offices (LPSOs), Corporate Departments and field offices lead their respective implementations and provide A-123 oversight for any Departmental entities under their cognizance. Bottom-up assessments are in turn provided by the Department's site contractors, field offices, LPSOs and Corporate Departments. These individual assessments are used as the foundation for the Secretary's year-end assurance reporting, which is included in the annual Performance and Accountability Report<sup>2</sup>. This Top-Down/Bottom-Up approach is illustrated below.

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<sup>2</sup> The Department obtained approval from OMB in FY 2007 to participate in a pilot program for Agency Financial Reports, previously known as the Performance and Accountability Report.

## Reporting and Assurance Flow



The Department has pursued a three-year implementation strategy due to the complexities and interdependencies of implementing A-123. This strategy provides for a "complete" (qualified or unqualified) assurance in FY 2008. A summary of the three-year implementation approach is identified below.

	FY 2006	FY 2007	FY 2008
<b>Federal Sites</b>	Complete documenting, evaluating and testing of high-risk activities that are most critical to financial statement remediation efforts.	Complete documenting, evaluating and testing of remaining high-risk activities and all medium-risk activities.	Complete documenting, evaluating and testing of all low-risk activities. Baseline for Federal activities is established.
<b>Non-Federal Site Contractors</b>	Complete documenting, evaluating and testing of all high-risk activities	Complete documenting, evaluating and testing of all medium-risk and low-risk activities. Baseline for contractor activities is established.	Document, evaluate and testing all activities under an Annual Risk-based Controls Assessment methodology.
<b>Year-end Assurance</b>	Provide a qualified assurance on November 15, 2006, due to limited scope.	Provide a qualified assurance on November 15, 2007, due to limited scope.	Provide assurance on November 15, 2008 (qualified or unqualified)

Once Departmental elements have completed their baseline assessments, they implement an Annual Risk-based Controls Assessment (ARCA). This methodology allows local A-123 implementation teams to identify, plan for, implement and monitor their current year and out-year

assessment scope. The ARCA methodology is based on the OMB requirement that all controls be tested at least every three years.

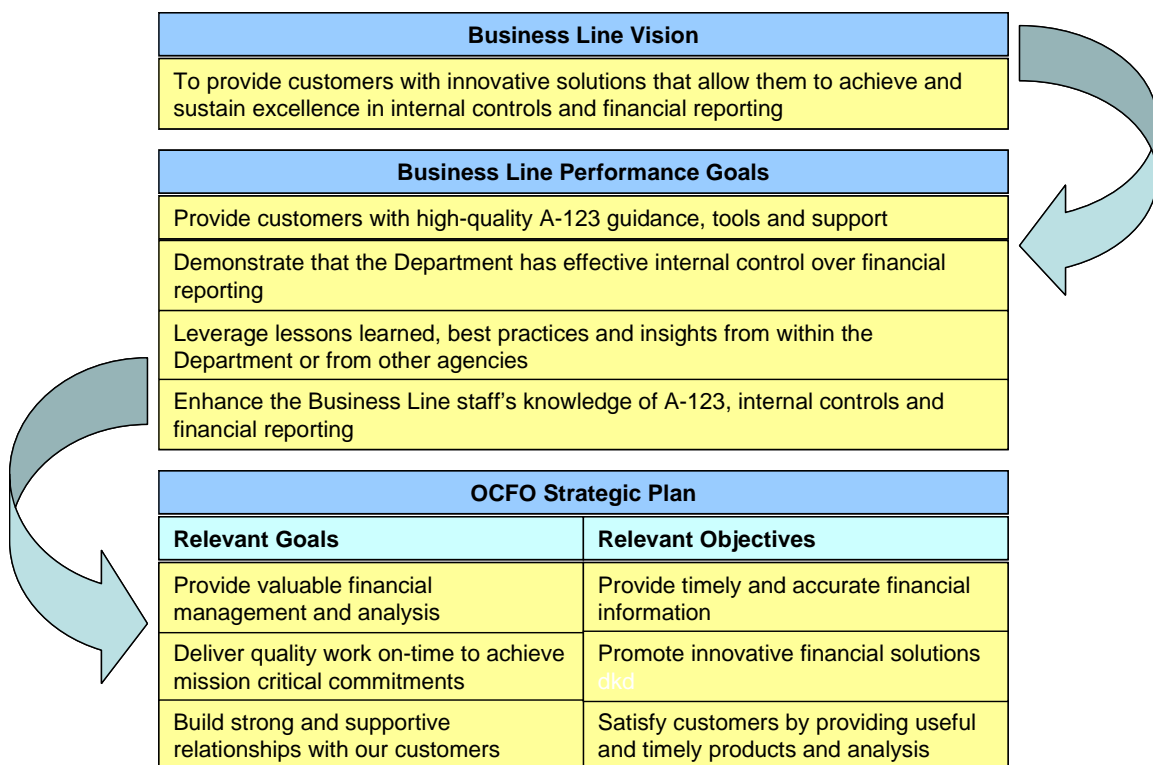
### Role of the Business Line

The Department's implementation of A-123 is to a large extent dependent on support services contractors and outside accounting expertise. The Business Line provides funding to contracts that supports customer assessments. These contracts support the PMT and its provision of corporate guidance, tools, training, reference materials and the A-123 Help Desk, as well as its on-site support for areas of specific need. The Business Line also funds other contracts that have supported process mapping initiatives, test plan development and testing of controls, and the resolution of materials weaknesses related to internal control over financial reporting.

### Planning Process

The Business Line plans its activities on a rolling annual basis. The planning process includes interactions with customers throughout the year and these interactions, as well as awareness of changes in A-123 requirements, form the basis for the upcoming year's support requirements and funding needs for the Business Line. The planning process also incorporates WCF pricing policy guidelines as delineated in the *WCF Guide to Services and Procedures* (the Blue Book), which is approved by the WCF Board of Directors.

As part of the planning process, the Business Line also seeks to align its BSC objectives and performance goals with the OCFO's Strategic Plan. The Business Line works toward achieving its BSC objectives and performance goals throughout the year, and reports on progress to the WCF Board on a quarterly and annual basis. An illustration of how the Business Line supports the OCFO Strategic Plan is provided below.



## **External Regulation and Partnerships**

The Business Line—through the SrAT and the PMT—works with external stakeholders such as OMB to implement an appropriate A-123 Program for the Department. The Department's implementation of A-123 is reviewed by the Department's Office of Inspector General and may, at some point in the future, be subject to a formal audit opinion on internal controls over financial reporting.

## **Resources and Capabilities of the Organization**

The Business Line provides and maintains capabilities to support Department-wide implementation of A-123. Specifically, the PMT comprises federal staff that provides corporate oversight of, and support for, Department-wide implementation of A-123. The PMT also works with seven contractor staff that help maintain and support the A-123 Program, including providing direct on-site support to customers. The Business Line also supports other contractor staff that collectively bring to the Department professional accounting and other relevant expertise necessary to support customer needs.

## **Needs and Capabilities of Customers**

The Business Line is focused on the needs of its customers. Meeting these needs is challenging since customers have different needs and each has a unique experience with, and brings its own specific capabilities to bear on, its respective A-123 assessment. The Business Line, through the PMT, acts as the liaison between these customers and seeks to provide support that crosscuts all customers, while also providing targeted direct (i.e., on-site) support where possible. The PMT also seeks to leverage its corporate role by sharing information, looking for areas to better integrate A-123 with other financial management reviews, and seeking opportunities to improve business processes.

## **Future Competitive Advantages**

The Business Line is positioned to continue to provide customers with innovative solutions that allow them to achieve and sustain excellence in internal controls and financial reporting. For example, the Business Line, through the PMT, is represented on the Federal Inter-Agency Internal Control Workgroup, a key working group for sharing ideas and solving common problems related to A-123. The insights gained through such government-wide interaction, when fed back in products (e.g., reference materials, tools) and services (e.g., on-site support) to customers, can be leveraged to complement and supplement their individual A-123 assessments and meet their particular needs.

## **Economic Analysis**

The Business Line has one pricing segment: Financial Reporting Control Assessment (i.e., A-123). Inputs to the Business Line are primarily direct labor costs for support services contracts, with a minimal level of federal overhead. As can be seen in Table 1 (below), direct labor costs of \$5 million comprised the vast majority (over 96 percent) of Business Line costs in FY 2006. Federal overhead, on the other hand, at a total of \$188,000 comprised less than 4 percent of costs. The direct labor cost and federal overhead related to four separate contracts in FY 2006. Although they were separate contracts, they were common to the A-123 effort yet provided distinct areas of support to the PMT and customer A-123 assessments.

# ILLUSTRATION 1

## FY 2006 Cost Structure -- WCF A-123 Business Line (\$ thousands)

Table 1

Overhead			Direct			Percent of Costs				
Federal FTE	Related Expense	Other Mgmt.	Labor	Materials & Supplies	Subtotal	Federal FTE	Related Expense	Other Mgmt.	Labor	Materials & Supplies
124	64		5,000		5,188	2.4%	1.2%		96.4%	

Table 2

Unit Cost (whole dollars)										
Units	Federal FTE	Related Expense	Other Mgmt.	Labor	Materials & Supplies	Subtotal	Increm. Cost	Fixed	Variable	Pricing Policy
1	124	64		5,000		5,188		5,188		Tax

As can be seen in Table 2 (above), the unit cost of the Business Line providing these services in FY 2006 is consistent with the direct labor costs and federal overhead in Table 1. This is due to the fact that the Business Line has only one unit or pricing segment. As can also be seen in Table 2, the entire cost of the Business Line, or approximately \$5.2 million, are fixed rather than variable costs. This is due to the fact that costs will not change regardless of the level of 'production' in any given year. For example, costs will not change whether there are a large number of outputs (i.e., final contract deliverables) generated by the Business Line or just a few. (A discussion on the relation of inputs to outputs can be found below.)

Direct labor costs of \$5 million in FY 2006 (and FY 2007 as well) represented the cost of laying the foundation for the Department's A-123 Program and for resolving material weaknesses in internal control over financial reporting. Now that this 'heavy lift' is done, the Business Line will seek to reduce its costs by decreasing the number of contracts it supports. The Business Line believes that \$4 million (with minimal federal overhead) represents the cost of maintaining a steady-state A-123 Program, and in the future it will direct available funding to the remaining contracts, as necessary, to address high-priority needs. The Business Line anticipates this \$1 million reduction in direct labor costs to take affect in FY 2008.

### Relation of Inputs to Outputs

As mentioned earlier, the inputs to the Business Line are primarily direct labor costs for support services contracts. These contracts (inputs) generate outputs that provide the approximately 60 organizational customers across the Department with the solutions they need to achieve and sustain excellence in internal controls and financial reporting. For example, outputs include A-123 guidance, tools, training and reference materials provided by the PMT, as well as its operation of the A-123 Help Desk and its on-site support for areas of specific need. Outputs also include A-123 initiatives such as process mapping, test plan development and testing of controls, and in the past the resolution of materials weaknesses related to internal control over financial reporting.



### Baseline Performance

This is the first year of this analysis. As such, there is little data on which to baseline. However, the Business Line plans on updating this analysis with FY 2007 data which will form the basis for comparing these results for trend in fiscal years.

## Balanced Scorecard Elements

**Customers:** Support customer efforts to assure the integrity of their financial reporting activities.

**Performance Goal:** Provide customers with high-quality A-123 guidance, tools, reference materials and support.

**Performance Indicator:** Customer acceptance of the A-123 guidance, tools, reference materials and support.

**FY 2007 Performance Results:** Overall, positive feedback was received during A-123 All-Hands training sessions and through the A-123 Help Desk.

Strategies for supporting customer efforts to assure the integrity of their financial reporting activities	Fiscal Year				
	2008	2009	2010	2011	2012
Reinvigorate the corporate A-123 Quality Assurance process	X				
Maintain a corporate A-123 Quality Assurance process		X	X	X	X
Provide customers the capability to perform quality assurance on their own data	X				
Provide customers with additional reference materials	X	X	X	X	X
Conduct A-123 training sessions	X	X	X	X	X
Provide direct implementation support for targeted A-123 assessments	X	X	X	X	X
Standardizing sub-processes (and possibly key risks) across the Department		X			

**Financials:** Support Departmental efforts to assure the overall integrity of its financial management activities.

**Performance Goal:** Demonstrate that the Department has effective internal control over financial reporting.

**Performance Indicator:** An unqualified Secretarial A-123 assurance.

**FY 2007 Performance Results:** The Department, as a whole, was not able to provide an unqualified Secretarial assurance. This was due to the Department's OMB-approved multi-year approach to implementing A-123, in which the earliest that an unqualified assurance can be provided is FY 2008.

Strategies for supporting Departmental efforts to assure the integrity of its financial reporting activities	Fiscal Year				
	2008	2009	2010	2011	2012
Reinvigorate the corporate A-123 Quality Assurance process	X				
Ensure that federal implementations complete all low-risk activities, per the Department's commitment to OMB	X				
Maintain a corporate A-123 Quality Assurance process		X	X	X	X

**Internal Business Processes:** To improve the management and implementation of the Department's A-123 Program.

**Performance Goal:** Leverage lessons learned, best practices and insights from other within the Department or from other agencies.

**Performance Indicator:** Issue annual A-123 Best Practices report.

**FY 2007 Performance Results:** A-123 Best Practices report, covering FY 2007, was issued in December 2007.

Strategies for improving the management and implementation of the Department's A-123 Program to make it more responsive to customer needs	Fiscal Year				
	2008	2009	2010	2011	2012
Participate in the Federal Inter-Agency Internal Control Workgroup	X	X	X	X	X
Use ideas and feedback from customers	X	X	X	X	X

**Learning and Growth:** To improve the knowledge of Business Line staff to better anticipate and support customer needs.

**Performance Goal:** Enhance the Business Line staff's knowledge of A-123, internal controls and financial reporting.

**Performance Indicator:** Business Line staff annual training in topics such as A-123, internal controls and financial reporting.

**FY 2007 Performance Results:** Business Line staff attended an A-123 Internal Controls Training Workshop in June 2007.

Strategies for improving the knowledge and abilities of Business Line staff to better anticipate and support customer needs	Fiscal Year				
	2008	2009	2010	2011	2012
Ensure that staff have the requisite knowledge to carry out responsibilities	X	X	X	X	X
Monitor the availability of pertinent training opportunities	X	X	X	X	X